1973 Annual Report

Canadian Pacific Limited

Canadian Pacific Limited

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Iron Ore Company of Canada, Montreal

*F. S. Burbidge, *President,*
Canadian Pacific Limited, Montreal

*Keith Campbell, *Vice-President,*
Canadian Pacific Limited, Montreal

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Canadian Pacific Limited, Calgary

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Law Firm of Tilley, Carson & Findlay, Toronto

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Bank of Montreal, Montreal

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Pierson, Heldring & Pierson,
Amsterdam, The Netherlands

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Eaton's of Canada Limited, Toronto

†H. J. Lang, *Chairman and Chief Executive Officer,*
Canron Limited, Montreal

*Herbert H. Lank, *Director,*
Du Pont of Canada Limited, Montreal

*W. Earle McLaughlin, *Chairman and President,*
The Royal Bank of Canada, Montreal

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Brascan Limited, Toronto

Paul L. Paré, *President and Chief Executive Officer,*
Imasco Limited, Montreal

†Claude Pratte, Q.C., *Advocate,*
Quebec City

Lucien G. Rolland, *President and General Manager,*
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A. M. Runciman, *President,*
United Grain Growers Limited, Winnipeg

F. H. Sherman, *President and Chief Executive Officer,*
Dominion Foundries and Steel, Limited, Hamilton

*Ian D. Sinclair, *Chairman and Chief Executive Officer,*
Canadian Pacific Limited, Montreal

Denis W. Timmis, *President and Chief Executive Officer,*
MacMillan Bloedel Limited, Vancouver

Kenneth A. White, *President and Chief Executive Officer,*
The Royal Trust Company, Montreal

Norman E. Whitmore, *President,*
Wascana Investments Limited, Regina

Henry S. Wingate,
Director and Chairman of the Advisory Committee,
The International Nickel Company of Canada, Limited

*Ray D. Wolfe,
Chairman of the Board and Chief Executive Officer,
The Oshawa Group Limited, Toronto

*Member of the Executive Committee
†Member of the Audit Committee

Officers

Ian D. Sinclair, *Chairman and Chief Executive Officer,*
Montreal

F. S. Burbidge, *President,*
Montreal

Keith Campbell, *Vice-President,*
Montreal

Corporate Services

J. K. Dakin, *Vice-President Administration,*
Montreal

Donald S. Maxwell, Q.C.,
Vice-President Law and General Counsel,
Montreal

P. A. Nepveu,
Vice-President Finance and Accounting,
Montreal

J. C. Ames, *Secretary,*
Montreal

G. M. Rountree, *Comptroller,*
Montreal

D. E. Sloan, *Treasurer,*
Montreal

CP Rail

Keith Campbell, *Senior Executive Officer,*
Montreal

J. C. Anderson, *Vice-President Industrial Relations,*
Montreal

J. M. Bentham, *Vice-President Purchases and Stores,*
Montreal

A. F. Joplin, *Vice-President Operation and Maintenance,*
Montreal

J. H. Morrish, *Vice-President Marketing and Sales,*
Montreal

J. N. Fraine,
Senior Regional Vice-President, Pacific Region,
Vancouver

R. S. Allison, *Vice-President, Prairie Region,*
Winnipeg

G. E. Benoit, *Vice-President, Atlantic Region,*
Montreal

L. R. Smith, *Vice-President, Eastern Region,*
Toronto

Transport and Telecommunications

R. T. Riley,
Vice-President Transport and Telecommunications,
Montreal

Contents

1974 Annual General and Special General Meeting

The Annual General Meeting and Special General Meeting of the Shareholders is to be held on Wednesday, May 1st next, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

Stock Transfer Agents

The Royal Trust Company,
1648 Hollis Street, Halifax, N.S. B3J 1V7;
1 King Street, Saint John, N.B. E2L 1G1;
630 Dorchester Boulevard West,
Montreal, P.Q. H3B 1S6;
Royal Trust Tower,
Toronto-Dominion Centre, Toronto, Ontario;
287 Broadway, Winnipeg, Manitoba R3C 0R9;
101 McCallum Hill Building,
Regina, Saskatchewan;
600 7th Avenue S.W., Calgary, Alberta T2P 0Y6;
Royal Trust Tower, Bentall Centre,
555 Burrard Street, Vancouver, B.C. V7X 1K2.

Bank of Montreal Trust Company,
2 Wall Street, New York, New York 10005

Deputy Secretary,
8 Waterloo Place, London SW1Y 4AQ, England

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and
London, Eng. Stock Exchanges

Shareholders having inquiries should write to:
J. C. Ames, Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada,
H3C 3E4

To the Shareholders

Earnings, Dividends Up

The Company's net income for 1973 of $126 million, including extraordinary items of $6 million, was $30 million above the 1972 level.

Net income per Ordinary share amounted to $1.71, an increase of 42¢ per share. Dividends of 77¢ per share on the Ordinary stock were 7¢ higher than in 1972. Of the dividends, 40¢ per share was the total proceeds of dividends from Canadian Pacific Investments Limited, representing 37¢ per share, and from Canadian Pacific Air Lines, Limited, representing 3¢ per share.

Virtually the whole of the increase in net income came from earnings of Canadian Pacific Investments Limited and from the Company's equity in the income of Soo Line Railroad Company, which is not consolidated.

For Canadian Pacific Investments Limited the year was one of growth and of a record high net income. CPI's interests in petroleum and natural gas, newsprint, woodpulp and logs, and metal mining and refining, all achieved significantly higher production levels and benefited from better product prices. The real estate and hotel operations reflected the above-average growth of the Canadian economy. Investment income was up partly due to increased dividends on shares in forest products companies.

The transportation group – embracing rail, trucks, telecommunications, air and ships – had a difficult year. Although demand for transportation services was high, growth was limited by strikes. Air operations were curtailed during the 68-day strike of airline machinists. Over a period of nearly six weeks the non-operating rail unions, which include trucking and telecommunications employees, engaged in rotating strikes and finally in a nationwide general strike which not only hampered these land operations but also interfered with the flow of container ship traffic.

The higher wages provided for in the Act of Parliament ending the rail strike, together with increases added subsequently by the Arbitrator and the cost of improved pension benefits, burdened expenses of rail, telecommunications and trucks with some $52 million. Including non-organized employees, the cost of wage and benefit increases in 1973 for the three services was some $61 million. The dramatic rise in fuel prices and climbing prices of other materials had a further adverse impact on net income.

CP Rail worked under still another disadvantage. As requested by the Government of Canada, no general increases were applied to rail freight prices during the year. Specific increases were negotiated with shippers, where possible, and rates on international movements were raised in line with U.S. rates. Altogether these yielded CP Rail approximately $10 million and affected slightly less than half the volume of traffic carried. To make up for some of the revenue foregone, the Government agreed to compensate the railways. The amount payable to CP Rail was $13 million.

Consolidated Accounts

A significant change in financial reporting practice was made in 1973. The accounts for 1973, and the comparative 1972 figures, are now reported on a consolidated basis, except for the Soo Line Railroad which is accounted for on the equity basis.

The statement of consolidated income presents clearly the Company's income from each of its major transportation groups as well as from the activities carried on by Canadian Pacific Investments Limited. In presenting accounts in this form the Company is in the vanguard of informative shareholder reporting. It should be noted that net income on the new basis does not differ from total earnings shown in the statement of "Summary of Earnings of the Company and its Subsidiaries" which has been included in shareholder reports since 1969.

Summarized Statement of Income

	1973	1972	Increase or (Decrease)
	(in millions, except amounts per share)		
Net income from:			
CP Rail	**$ 32.6**	$34.6	$ (2.0)
CP Trucks	**(3.0)**	0.8	(3.8)
CP Telecommunications	**1.3**	2.3	(1.0)
CP Air	**4.2**	5.2	(1.0)
CP Ships	**3.1**	3.3	(0.2)
Miscellaneous	**5.2**	4.8	0.4
CP Investments Limited	**66.4**	37.5	28.9
Equity in income of subsidiary not consolidated	**10.1**	5.7	4.4
Income before extraordinary items	**119.9**	94.2	25.7
Extraordinary items	**6.2**	1.9	4.3
Net income	**$126.1**	$96.1	$30.0
Per Ordinary share:			
Income before extraordinary items	**$1.62**	$1.26	$0.36
Net income	**1.71**	1.29	0.42
Dividends	**0.77**	0.70	0.07

Looking Ahead

Two problems – inflation and energy – are on everyone's mind. Both are likely to be with us for some time and to have profound effects on business decisions and activities. Vacillations and changes in the policies of governments on these two issues add to the difficulty of developing sound business policies.

From the point of view of this Company it seems highly likely that in a world of high-cost energy its efficient transportation systems will have a more important role than ever to play. No less, the operations carried on through CP Investments Limited are well positioned to go on making a vital contribution to Canadian development and prosperity.

Growth, but at a reduced rate, is widely predicted for the Canadian economy in 1974. This can probably be translated directly into similar expectations for the revenues of CP Rail, CP Telecommunications and CP Trucks. Expectations of better net earnings from them, and from CP Air as well, depend, however, on Government recognition of the need to raise transportation prices to meet operating costs which have already risen sharply and are still escalating. The present time is particularly inopportune to ignore the realities of the market place.

Among the transportation group, the most favorable outlook for 1974 is for CP (Bermuda), which will have a substantially augmented fleet in operation on good charter terms.

CP Investments Limited expects another good year. Demand for oil and gas, newsprint, pulp, fertilizers and base metals continues strong. Real estate and hotel operations are expanding and they should benefit from generally good business conditions in Canada.

The Directors express appreciation for the skills and energy displayed by officers and employees in their work for the various Canadian Pacific enterprises in the past year. The strikes strained relations between the employees and the managements affected, but that is now history. Both parties have returned to the important task of satisfying customers, which is the source of wages and profits alike.

For the Directors,

I. S. Burbidge

President

Chairman and
Chief Executive Officer

Montreal, March 11, 1974

CP Rail

Net income from CP Rail, at $32.6 million, was $2.0 million, or 6%, lower than in 1972. Although movement of some traffic was simply deferred by the strike, the net loss of revenue attributable to it is estimated at more than $25 million. Increased wage rates and benefits for all CP Rail employees, non-organized as well as organized, added more than $51 million to 1973 expenses. Higher prices for diesel fuel and for other materials are estimated to have increased costs another $8 million.

Notwithstanding the strike, the volume of freight traffic carried increased 4%. This additional volume and an improvement of about 6% in freight train performance helped to offset to some extent the effects of cost increases. In addition, Government payments were up some $19 million, of which $13 million was compensation for the freight rate freeze and the balance was paid under the National Transportation Act for continuing uneconomic services or low rates considered essential to the national interest.

Several projects illustrate CP Rail's innovative approach to the solution of transportation problems.

The first stage of expansion of capacity of the main line between Calgary and Vancouver will get under way during 1974. A total of 15 "Robot" units are now on order for use in operating bulk commodity trains. The use of these "Robots", and of mid-train slave diesel units, will permit operation of longer trains and a consequent saving in the number of trains required to move the continually growing volume of traffic to and from Canada's west coast. This system has been successfully pioneered in moving unit coal trains. Experience with it is now being applied to handling such bulk commodities as sulphur, potash and grain.

A second large-scale computer was installed during the year to improve further the quality of information used in operations and to assist in the development of new systems. Planning is under way to make the central computers available to regional and field personnel for planning and control of operations such as car distribution and allocation of diesels and of functions related to customers such as billing and collecting accounts.

Incan Marine Limited, formed in 1972 by CP Rail and Inchcape and Company of London, England, has developed two marine transportation services which a sister company, Incan Ships Limited, will implement. The first of these is a transporter system for moving rail cars of forest products across Lake Superior from Thunder Bay, Ontario, to Superior, Wisconsin, beginning in June, 1974. A second similar service which will extend the benefits of rail transportation to the north shore of the Lower St. Lawrence through Quebec City is planned for 1975. Incan Ships will also manage and operate three roll-on/roll-off vessels for the movement of automobiles and other cargo for CP Rail from Saint John, N.B., to Newfoundland.

Steady growth in container traffic necessitated construction of new container terminals during 1973 in Vancouver, Winnipeg, and Hamilton. To accommodate expected further increases in the volume of import-export containers, plans have been made to extend the terminals in Vancouver and Winnipeg as well as those in Edmonton, Toronto and Montreal.

CP Trucks

The loss of $3.0 million by CP Trucks in 1973 compares with net income in 1972 of $760,000. The net operating income of the Smithsons group in Eastern Canada was at a record level, but this was not enough to offset heavy losses on the operations of CP Express and the Western Division of CP Transport. These disappointing results were attributable to the strike of the non-operating rail unions, which involved some two-thirds of the trucking employees, and to the high cost of the eventual contract settlement. Wage costs for all trucking employees were over $7 million higher than in 1972.

A more stable labour situation, the planned elimination of uneconomic operations, and a concerted program to regain traffic lost through deterioration of service during and after the strike should all contribute to improved results in 1974.

CP Telecommunications

Net income from CP Telecommunications of $1.3 million, was $1.0 million less than in 1972. This decline reflects principally the effects of the strike of the non-operating railway unions, in which organized telecommunication employees took part, and of the subsequent wage increases. During the strike, supervisory personnel kept the plant operating.

Revenues for the year were $3.6 million, or 8% higher, largely because of growth in Telex services. However, expenses were up $4.6 million, or 11%. Approximately $2.5 million of the increase in expenses was for higher wages and salaries for organized and non-organized employees. Additional rental of nearly $1 million was paid for space on Anik I, Canada's communications satellite, which began operation in early 1973.

The outlook for business in 1974 is reasonably good, but in view of rate regulations and stiff competition revenue growth is not expected to match rising expenses. Net income from telecommunications is therefore likely to be somewhat lower than in 1973.

Drilling platform off the Canadian east coast, part of PanCanadian Petroleum exploration program.

Arbutus Village residential development in Vancouver, Marathon Realty's first venture into construction for resale.

CP Air

Net earnings of CP Air amounted to $4.2 million, a decline of $1.0 million, compared with 1972. Despite the strike of the machinists' union, which forced substantial curtailment of service on most routes during the busy summer season, revenues for the year rose $14.6 million, or 8%. Expenses, however, were up $15.6 million, or 9%.

Revenue growth was evident in the domestic service and on most of the international routes. Particular strength was apparent on the Orient route, where fare increases and an upward revaluation of the Japanese yen were additional favourable factors.

Operating expenses were adversely affected by rising costs particularly of fuel and labour. Some increases in the price of fuel in the latter half of the year were as high as 150%. Higher wage and employee benefit costs accounted for additional expenses of approximately $5.6 million. The impact of these cost increases was somewhat mitigated by a reduction of $4.4 million in depreciation charges. This reflected the improvement in useful economic life resulting from refurbishing some aircraft interiors and adoption of service lives and residual values which conform more closely with industry practice.

During 1973 CP Air was designated the Canadian flag carrier to serve Peking and Shanghai. This service is planned to begin in the first half of 1974.

In late November the Minister of Transport announced certain revisions to the Government's international aviation policy and, at the same time, designated CP Air to serve Milan, Italy. The policy statement confirmed CP Air's rights on the routes it now serves and gave it, in addition, the possibilities of serving North Africa, Iran, new destinations in the Pacific and the Far East, and Brazil. This policy statement gives CP Air the necessary framework on which to build its plans for future expansion. A new bilateral agreement was signed late in 1973 with the United States from which additional CP Air routes to new destinations in that country are expected. After the close of the year the Government announced that in future CP Air will be permitted to terminate flights from Vancouver at Toronto and Ottawa.

Two Boeing 747's were acquired late in 1973. One of these was placed in service on the north Pacific route in mid-December and the second will go into service on the transcontinental route in early Spring. Two additional 747's have been ordered for delivery in late 1974.

While there is good reason to expect continued expansion in traffic in 1974, operations would be affected if fuel shortages developed. Similarly, if rising costs – notably for fuel – cannot be offset by upward adjustments of fares, net income would suffer. The industry organization, IATA, recognizes the need for such adjustments, but it is governments which must approve such changes.

A preliminary prospectus filed with securities commissions across Canada in late October for a proposed public issue of common shares of Canadian Pacific Air Lines, Limited was withdrawn in January, 1974 because of market conditions.

A copy of the 1973 annual report of CP Air can be obtained by writing to the Secretary at 1900 Granville Square, 200 Granville Street, Vancouver, B.C.

CP Ships

Net income from CP Ships, amounting to $3.1 million for the year, was $167,000 less than in 1972.

Net earnings of CP (Bermuda) amounted to $6.6 million, compared with $8.5 million in the previous year. The CP (Bermuda) fleet was expanded to 15 vessels with the delivery of three 30,000-ton refined oil product tankers and two 120,000-ton bulk carriers. These new vessels were all put in charter service. Two more 30,000-ton refined oil product tankers, a 250,000-ton crude oil tanker and an additional 120,000-ton bulk carrier are to be delivered in 1974. Orders were placed in 1973, with delivery expected in 1975, for three more 30,000-ton refined oil product tankers and three 35,000-ton wide-hatch bulk carriers for the forest products trade.

A significant improvement in earnings of CP (Bermuda) is anticipated in 1974 as operations will benefit from a full year's operation of vessels which came into service during 1973, and also from the new vessels being delivered during 1974.

The loss of CP Steamships, Limited was $1.4 million less than in 1972. This was largely attributable to the absence of major labour disruptions on the docks in the U.K. and Canada, in contrast to 1972 when dock strikes in both countries plagued the container ship operation. Results in 1973 were adversely affected by the Canadian rail strike and by strikes of some major customers. Delays in securing higher rates to meet rising costs were another adverse factor in 1973.

CP Steamships, Limited entered into a commercial agreement late in 1973 with Manchester Liners Limited providing for concentration of CP Steamships operations solely in the southern U.K. and the European continent and Manchester Liners in the northern U.K. It is expected that both companies will handle approximately the same volume of traffic as if they had continued their wider operations and that both can achieve economies from the narrower geographic concentration. CP Steamships disposed of the two container vessels released from the northern service.

New CP Air Boeing 747
wide-bodied jet at Vancouver.

CP Investments Limited

Net income from CP Investments Limited, before extraordinary items, increased to $66.4 million from $37.5 million in 1972. Every sector of that company's activities reported higher earnings than in the previous year.

PanCanadian Petroleum Limited produced substantially more oil and gas than in 1972 and continued its active exploration program. The major portion of exploration funds was spent in Canada, from the western Arctic to the waters off the east coast. In addition, work was carried out in certain areas of the United States and in the North Sea. Seismic surveys were conducted in selected geological basins of South America, Honduras, Africa and Indonesia.

Markets for Cominco's mineral products and fertilizers were strong during the year. The Black Angel mine in Greenland, in which Cominco holds a 61.5% interest, was completed and production began in the fourth quarter of 1973, ahead of schedule. Studies and testing of the Polaris lead-zinc ore body in the Canadian high Arctic went ahead during the year. As had been anticipated, Fording Coal Limited, owned 60% by CPI and 40% by Cominco, operated at a loss in 1973, its first year. The profitability of operations in 1974 depends mainly on satisfactory negotiation of the price of coal for the new contract year beginning April 1 and maintenance of production at planned levels.

Both The Great Lakes Paper Company, Limited and Pacific Logging Company Limited made significant contributions to the increase in CPI's 1973 earnings. Great Lakes has embarked on an expansion program which will give it a waferboard-particleboard plant, additional capacity at its new stud mill and additional capacity of a quarter-million tons of bleached kraft pulp. These new facilities will all be in production in mid-1976.

Marathon Realty Company completed a number of projects – Phase I of condominium construction in Arbutus Village, Vancouver, and the Granville Square office building, also in Vancouver. Marathon's newest projects are the redevelopment of a large downtown area of the City of Peterborough, Ontario, construction of a 15-storey office building in Montreal, of a computer centre in Calgary for lease to a chartered bank, and of a multi-tenant warehouse in Summerlea Industrial Park, near Montreal.

CP Hotels Limited had a successful and eventful year. Food service operations were significantly expanded. In January 1974, the 312-room Chateau Halifax in Halifax, N.S., was officially opened. Construction was begun on a Red Oak Inn in Thunder Bay, Ontario. The company made its entry on the international scene by assuming management of two hotels in Mexico, the Château Royal in Mexico City and the Acapulco Royal in Acapulco.

CPI's investment portfolio was strengthened by the purchase in September of 2.9 million voting shares of The Algoma Steel Corporation, Limited. Additional shares were later purchased on the open market giving the Company slightly more than a 25% interest at year end. Dividend income from that investment amounted to $1.1 million for the year.

Sales of securities during the year resulted in a net gain of $4.9 million, which was taken up in Extraordinary Items.

A copy of the 1973 annual report of CPI can be obtained by writing to the Secretary of that company at Windsor Station, Montreal, Quebec H3C 3E4.

Directorate

Effective December 31, 1973, The Honourable J. V. Clyne, C.C., K.St.J. and Mr. H. Greville Smith, C.B.E. retired from the Board. The directors desire to record their recognition and appreciation of the services rendered by these retiring members during the long period of their association with the Company. Regrettably, Mr. H. Greville Smith passed away on February 19, 1974, after a short illness.

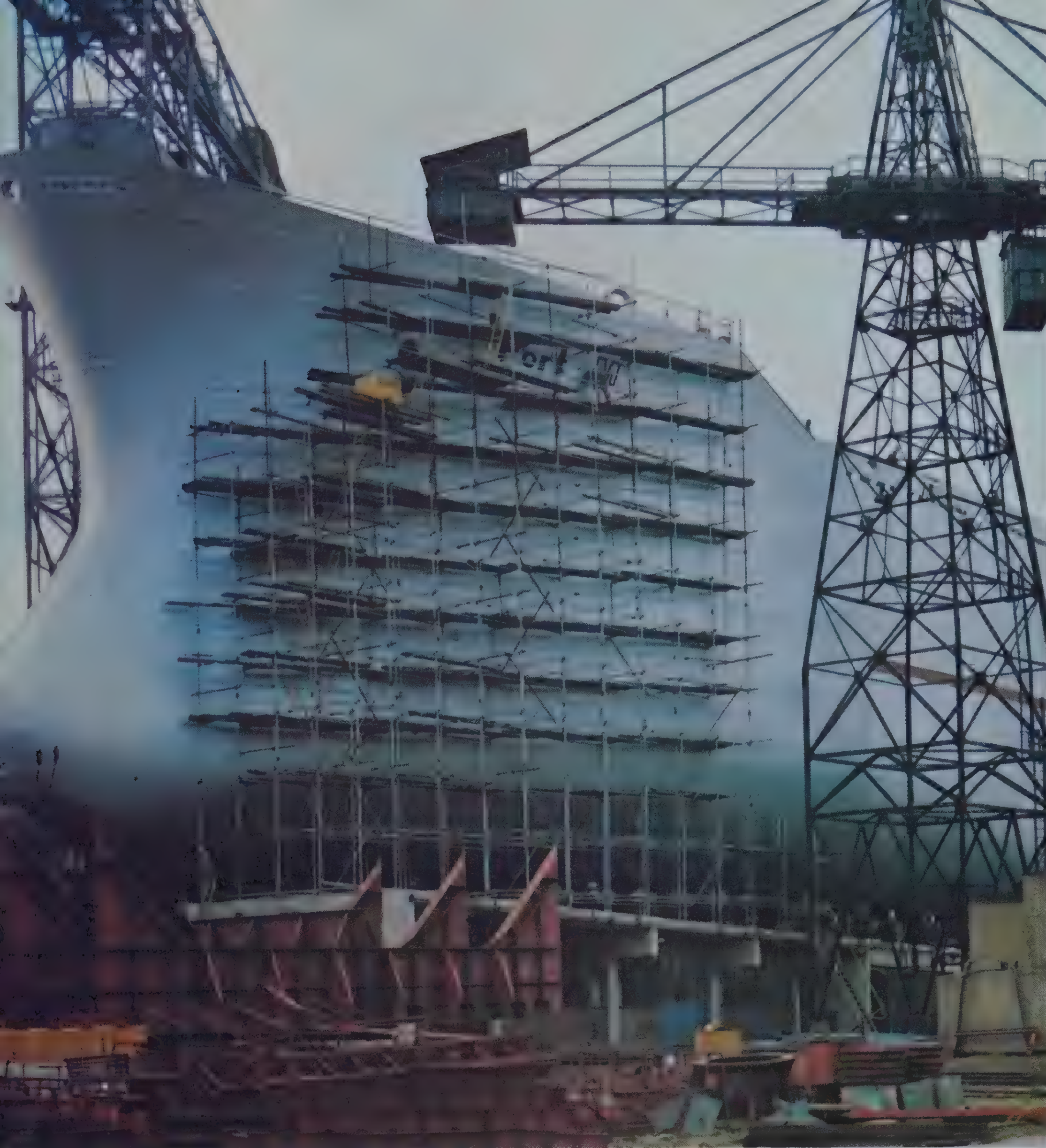
Mr. Denis W. Timmis was appointed a Director to succeed The Honourable J. V. Clyne and Mr. Kenneth A. White was appointed a Director to succeed the late Mr. Smith.

Stock Holdings

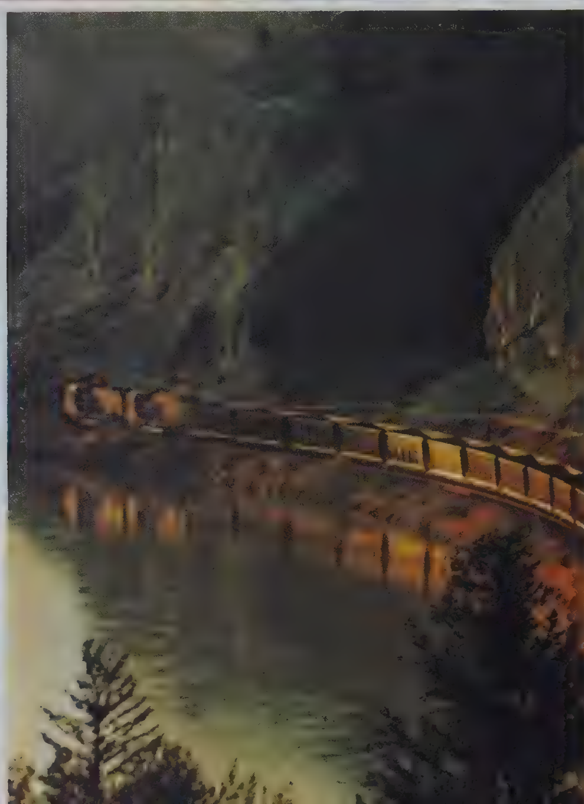
The number of registered holdings of the voting capital stock of the Company at December 31, 1973, was 74,418.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	63.62%
United States	18.06
United Kingdom & Other British	9.88
Other Countries	8.44
	100.00%



Fort Macleod, a 30,000-dwt clean product carrier, one of ten new vessels scheduled for delivery to CP (Bermuda) in 1974 and 1975.



Supplies come ashore at the site of the Polaris lead-zinc ore body in the Canadian high Arctic.

Robot power control system pioneered by CP Rail coal unit trains will be expanded to other bulk commodities in 1974.

Summary of Significant Accounting Policies

General

Basic financial reporting and consolidation policy

Over the past decade Canadian Pacific Limited (CPL) has reorganized its enterprises into two distinct groups. CPL, directly and through subsidiaries, carries on the transportation enterprises. Canadian Pacific Investments Limited (CPI), in which CPL held 92.64% of the common shares (87.72% of total voting shares) at December 31, 1973 (99.73% and 90.78% respectively at December 31, 1972), is the vehicle through which all other operations are carried on.

The consolidated financial statements include the financial statements of CPL and all subsidiary companies with the exception of those of the Soo Line Railroad Company, which operates a railroad in the Northwestern United States and is regulated by the Interstate Commerce Commission. CPL accounts for its investment in this company, which is 56% owned, on the equity method, and its summarized financial information is presented on page 22.

The statement of consolidated income on page 13 is designed to present clearly CPL's income from each of its two major operating groups. Income from transportation is further segregated between the major functions – rail, trucks, telecommunications, air and ships. A similar breakdown of income by function is presented on page 18 for the operations carried on through CPI. The significant accounting policies of each group are described below, and should be read in conjunction with the financial statements, the other financial information and the notes to the financial statements.

Changes from 1972 financial reporting practices

In 1972, investments in subsidiaries were carried at cost, and profits were reflected in income only to the extent of dividends received or of reductions of previous provisions for impairment of investments. The 1972 financial statements have been restated to give effect to the change to the basis described above, which brings into 1972 income $26 million previously recorded by note, and results in consolidated shareholders' equity of $1,714 million compared with $1,407 million previously reported on a corporate basis. The consolidated balance sheet reflects the elimination of investments in consolidated subsidiaries and their replacement by the assets and liabilities of these companies, together with the restatement of the investment in the unconsolidated subsidiary to the equity method.

Foreign exchange

Items in foreign currencies have been translated into Canadian dollars at current rates, except for properties and related depreciation, investments, long term debt and debenture and capital stocks, for which historical rates have been used. Gains or losses on exchange translation are included in or charged to income.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Earnings per share

Fully diluted earnings per share are calculated on the assumption that all preferred shares of CPI are converted and all warrants exercised at the beginning of the year and that a return of prime bank rate on the proceeds of the exercise of warrants is obtained.

Transportation

Income reporting by function

As explained above, CPL now operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, are departments of CPL. The remaining profit centres CP Trucks (Canadian Pacific Transport Company, Limited), CP Air (Canadian Pacific Air Lines, Limited) and CP Ships (Canadian Pacific Steamships, Limited, Canadian Pacific (Bermuda) Limited and CanPac International Freight Services Limited (CanPac IFS)) are operated through wholly-owned subsidiary companies.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Rent for leased railroads and interest on consolidated debenture stock is assigned to CP Rail, while other interest paid by CPL is allocated to CP Rail, CP Telecommunications and miscellaneous income as appropriate. Interest paid by other transportation companies is charged to their respective activities.

The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred. Income taxes charged by CPL are allocated to CP Rail, CP Tele-

communications and miscellaneous income on the basis of accounting income as adjusted for non-taxable items; taxes of Canadian Pacific Transport Company, Limited and Canadian Pacific Air Lines, Limited are charged to their respective activities. Because of losses or the jurisdiction of incorporation of the shipping companies, income taxes chargeable against net income of CP Ships represent only taxes of CanPac IFS.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway and telecommunication properties, the rates used are as authorized by the Canadian Transport Commission.

Effective January 1, 1973, to reflect the effect of a program of refurbishing the interiors of DC-8 aircraft, and to conform more closely with industry practice, the estimated lives of the DC-8-53, DC-8-63 and Boeing 737 aircraft were increased from 12 to 14 years and of the DC-8-43 aircraft from 12 to 15 years. The changes resulted in a reduction in depreciation in 1973 of $4,395,000 and an increase in net income of $2,197,000.

Estimated service lives used for principal categories of assets are as follows:

Road diesel locomotives	20 years
Railway freight cars	30 years
Ships	20 to 25 years
Aircraft	12 to 15 years
Trucks	8 to 12 years

Non-Transportation

Income reporting by function

The non-transportation activities are carried on by CPI through its various subsidiary companies. These, classified by line of business, are as follows:

		Percent owned by CPI
Oil and gas	PanCanadian Petroleum Limited	87.11%
Mines and minerals	Cominco Ltd.	54%
	Fording Coal Limited CanPac Minerals Limited	60% CPI and 40% Cominco
Forest products	Pacific Logging Company Limited	100%
	The Great Lakes Paper Company, Limited	52.97%
Real estate and related operations	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	CanPac Leasing Limited	100%

Investments in companies in which an interest of 50% or less is held, and which are deemed to be corporate joint ventures, are accounted for on the equity method.

The excess of the cost of CPI's investment in Great Lakes Paper over the book value of the underlying equity in net assets, amounting to $29 million, is presently carried in Other Assets pending completion of a study to determine the appropriate allocation of this amount.

With the exception of interest, (amounting in 1973 to $9,352,000), there are no significant inter-company charges among the CPI group companies. Interest has been eliminated from CPI revenues and expenses in the CPL Statement of Consolidated Income on page 13. In the analysis of CPI's operations on page 18, in order to present fairly the results by activity, the interest charges have not been eliminated. CPI's net income is not affected by this practice.

Inventories (Other than Rail)
Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Other inventories (principally related to forest product operations) are valued at the lower of cost (generally average cost) and net realizable value.

Lease revenue
The excess of aggregate rentals less lease acquisition costs over the cost of leased assets is recorded as income over the term of the lease in decreasing amounts pro rata to the declining balance of the investment not yet recovered. All leases are fully funded and gains arising from residual values of leased assets are reflected in earnings only when realized.

Accounting for oil and gas properties
The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties
Expenditures on general mineral exploration are charged to expenses as incurred. Expenditures on investigating identified properties and developing mines are capitalized.

Capitalized expenditures, together with the costs of certain investments in mining companies, are amortized against earnings by charges for depletion based on the mineral resources position.

Accounting for real estate properties
Land is carried at or below cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations.

Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any revenue, and other direct development expenses.

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

Accounting for other properties
Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Income taxes
The companies follow the tax allocation basis of accounting for income taxes. For timing differences relating to oil and gas exploration and drilling expenditures, the practice of providing deferred taxes at an estimated rate has been consistently followed, although it is the general practice in the oil and gas industry to make no provision for taxes so deferred. If current effective rates had been used, deferred taxes for 1973 would have been $3,000,000 greater (1972 – $2,700,000) and the cumulative total to December 31, 1973 would have been increased by $21,700,000. Various provincial securities commissions in Canada have recently questioned the appropriateness of not following tax allocation procedures with respect to drilling, exploration and lease acquisition costs. The commissions have indicated that unless, as the result of a study now being prepared by the industry, they are satisfied with the basis for departing from such procedures, companies in the oil and gas industry should be prepared to adopt tax allocation accounting effective in 1974 in respect of these costs.

Statement of Consolidated Income

For the Year ended December 31	1973	1972
	(in thousands)	
CP Rail		
Revenues (Page 19)	**$782,928**	$721,139
Expenses including income taxes	**750,365**	686,553
Net income	**32,563**	34,586
CP Trucks		
Revenues	**129,861**	128,975
Expenses including income taxes	**132,868**	128,215
Net income	**(3,007)**	760
CP Telecommunications		
Revenues	**49,397**	45,819
Expenses including income taxes	**48,085**	43,505
Net income	**1,312**	2,314
CP Air		
Revenues	**190,171**	175,555
Expenses including income taxes	**185,972**	170,394
Net income	**4,199**	5,161
CP Ships		
Revenues	**63,270**	52,252
Expenses including income taxes	**60,156**	48,971
Net income	**3,114**	3,281
Miscellaneous		
Net income	**5,233**	4,858
CP Investments Limited (Page 18)		
Revenues	**908,309**	584,273
Expenses including income taxes	**804,404**	526,218
	103,905	58,055
Minority interest	**37,554**	20,530
Net income	**66,351**	37,525
Equity in Income of Subsidiary not Consolidated	**10,111**	5,690
Income before Extraordinary Items	**119,876**	94,175
Extraordinary items after income taxes (Page 19)	**6,179**	1,931
Net Income	**$126,055**	$ 96,106
Earnings per Ordinary Share		
Income before extraordinary items	**$1.62**	$1.26
Net income	**1.71**	1.29

See Other Financial Information and Notes to Financial Statements on Pages 18 to 24.

Statement of Consolidated Retained Income

	For the Year ended December 31	1973	1972
		(in thousands)	
	Balance, January 1		
	As previously reported	**$ 789,398**	$ 772,917
	Equity in retained income of subsidiaries now consolidated or accounted for by the equity method	**307,639**	282,047
	As restated	**1,097,037**	1,054,964
Add:	Net income for the year	**126,055**	96,106
		1,223,092	1,151,070
Deduct:	Increase in minority interest in subsidiaries arising from conversions of preferred shares	**9,712**	19
	Dividends		
	7¼% Preferred stock	**3,098**	3,305
	4% Preference stock	**544**	545
	Ordinary stock (per share – 1973 – 77¢; 1972 – 70¢)	**55,180**	50,164
	Total dividends	**58,822**	54,014
	Balance, December 31	**$1,154,558**	$1,097,037

See Other Financial Information and Notes to Financial Statements on Pages 18 to 24.

Statement of Consolidated Source and Application of Funds

	For the Year ended December 31	1973	1972
		(in thousands)	
Source of Funds	Income before extraordinary items	**$119,876**	$ 94,175
	Add/(Deduct)		
	Equity in net income of subsidiary not consolidated	**(10,111)**	(5,690)
	Depreciation, depletion and amortization	**192,063**	165,110
	Deferred income taxes	**35,253**	19,181
	Dividend from subsidiary not consolidated	**3,356**	2,259
	Minority interest in income of subsidiaries	**37,554**	20,530
	Funds from operations	**377,991**	295,565
	Sales of investments	**25,530**	19,703
	Proceeds from disposal of property	**19,793**	26,592
	Issuance of long term debt	**239,803**	160,549
	Working capital of subsidiary acquired and consolidated	**3,816**	—
	Decrease in working capital	**85,774**	(6,052)
		$752,707	$496,357
Application of Funds	Additions to properties	**$366,172**	$329,975
	Additions to lease receivables	**13,141**	—
	Additions to investment portfolio	**65,693**	13,928
	Purchase of other investments	**7,136**	4,544
	Investment in subsidiary acquired and consolidated	**32,092**	—
	Reduction in long term debt	**167,228**	67,811
	Redemption of preferred stock	**5,325**	516
	Dividends declared	**58,822**	54,014
	Dividends paid minority shareholders of subsidiaries	**22,740**	18,404
	Sundries (net)	**14,358**	7,165
		$752,707	$496,357

See Other Financial Information and Notes to Financial Statements on Pages 18 to 24.

Consolidated Balance Sheet

Assets

December 31		1973	1972
		(in thousands)	
Current Assets	Cash and temporary investments, at cost (approximates market)	**$ 257,211**	$ 180,356
	Accounts receivable	**318,206**	253,828
	Rail materials and supplies, at cost or less	**47,778**	44,125
	Other inventories	**130,046**	100,259
		753,241	578,568
Insurance Fund, at cost	(approximate market $6,226,000; 1972 – $6,201,000)	**7,198**	6,922
Receivables under Leases	Amount due under lease agreements after one year	**18,011**	—
	Less: Deferred income	**5,499**	—
		12,512	—
Investments	Subsidiary company not consolidated	**85,273**	78,583
	Portfolio (market value $292,528,000; 1972 – $225,652,000) (Page 20)	**276,735**	229,474
	Other	**106,820**	101,930
		468,828	409,987
Properties, at cost (Page 20)	CP Rail	**2,552,130**	2,509,796
	CP Trucks	**95,380**	91,416
	CP Telecommunications	**147,868**	140,925
	CP Air	**269,897**	225,487
	CP Ships	**273,605**	222,215
	Miscellaneous	**68,652**	39,060
	CP Investments Limited	**1,561,825**	1,421,359
		4,969,357	4,650,258
	Less: Accumulated depreciation, depletion and amortization	**1,966,022**	1,841,603
		3,003,335	2,808,655
Other Assets		**113,211**	91,447
		$4,358,325	$3,895,579

Auditors' Report to the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheet of Canadian Pacific Limited as at December 31, 1973 and the consolidated statements of income, retained income and source and application of funds for the year then ended. For Canadian Pacific Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to consolidation as described in the Summary of Significant Accounting Policies, on a basis consistent with that of the preceding year, subject to possible adjustments which may result in the future from resolution of the matters referred to in the final paragraph of Note 4 and in Note 5.

Price Waterhouse & Co., Chartered Accountants, Montreal, Quebec, March 8, 1974.

Consolidated Balance Sheet

Liabilities

December 31		1973	1972
		(in thousands)	
Current Liabilities	Bank loans	**$ 28,415**	$ 32,069
	Accounts payable and accrued liabilities	**379,565**	296,879
	Notes and accrued interest payable	**140,675**	107,448
	Income and other taxes payable	**43,866**	25,090
	Dividends payable	**32,982**	29,846
	Long term debt maturing within one year	**167,981**	41,705
		793,484	533,037
Deferred Liabilities		**20,913**	21,707
Insurance Reserve		**7,198**	6,922
Long Term Debt (Page 21)		**819,405**	730,685
Perpetual 4% Consolidated Debenture Stock (Page 22)		**292,549**	292,549
Minority Shareholders' Interest in Subsidiary Companies (Page 23)		**340,635**	314,585
Deferred Income Taxes		**317,170**	281,724
Shareholders' Equity	Preferred stock (Page 23)		
	Authorized – 24,430,747 shares of a par value of $10 each		
	Issued – 4,048,793 7¼ % Cumulative Redeemable Series A shares (1972 – 4,543,480)	**40,488**	45,435
	Preference stock – 4% non-cumulative		
	Authorized – an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
	Issued – £865,919 in amounts of £1 and multiples thereof (1972 – £872,507)	**4,214**	4,246
	– in amounts of $3 and multiples thereof	**11,539**	11,542
		15,753	15,788
	Ordinary stock		
	Authorized – 100,000,000 shares of a par value of $5 each		
	Issued – 71,662,280 shares	**358,311**	358,311
	Premium on stock	**113,418**	113,761
	Other paid-in surplus	**84,443**	84,038
	Retained income	**1,154,558**	1,097,037
		1,766,971	1,714,370
		$4,358,325	$3,895,579

Approved on behalf of the Board:
Ian D. Sinclair, Director
F. S. Burbidge, Director

See Other Financial Information and Notes to Financial Statements on Pages 18 to 24.

Other Financial Information

CP Investments Limited – Net Income

	1973	1972
	(in thousands)	
Oil and gas		
Gross operating revenue	**$ 75,374**	$ 47,271
Expenses including income taxes	**51,074**	32,027
	24,300	15,244
Interest of outside shareholders	**3,038**	1,883
Net income	**21,262**	13,361
Mines and minerals		
Gross operating revenue	**565,354**	328,468
Expenses including income taxes	**519,750**	303,923
	45,604	24,545
Interest of outside shareholders	**25,428**	13,078
Net income	**20,176**	11,467
Forest products		
Sales and operating revenue	**143,291**	106,169
Expenses including income taxes	**127,001**	101,196
	16,290	4,973
Interest of outside shareholders	**3,853**	773
Net income	**12,437**	4,200
Real estate and related operations		
Gross rentals and other income	**35,384**	32,709
Expenses including income taxes	**30,672**	29,344
Net income	**4,712**	3,365
Hotels and food services		
Gross operating revenue	**67,937**	56,621
Expenses including income taxes	**64,254**	53,661
Net income	**3,683**	2,960
Finance		
Gross operating revenue	**19,797**	14,388
Expenses including income taxes	**19,202**	14,276
Net income	**595**	112
Investment income		
Gross income	**10,524**	7,694
Expenses including income taxes	**1,803**	838
Net income	**8,721**	6,856
Income before extraordinary items	**71,586**	42,321
Interest of outside CPI shareholders	**5,235**	4,796
Net income before extraordinary items	**$ 66,351**	$ 37,525

Other Financial Information

Rail Revenues

	1973	1972
	(in thousands)	
Freight revenue	**$692,025**	$641,655
Passenger services	**14,585**	19,297
Other railway	**14,805**	18,495
Coastal steamships	**11,781**	11,325
Government payments	**49,732**	30,367
	$782,928	$721,139

Income Taxes

	1973	1972
	(in thousands)	
Charged to income before equity in income of subsidiary and extraordinary items –		
Current	**$ 82,285**	$ 50,984
Deferred	**35,253**	19,181
	117,538	70,165
Charged to extraordinary items –		
Current	**—**	(810)
Deferred	**(207)**	270
	(207)	(540)
	$117,331	$ 69,625

Interest on Long Term Debt and Debenture Stock

	1973	1972
	(in thousands)	
Canadian Pacific Limited	**$ 29,588**	$ 25,733
Canadian Pacific Air Lines, Limited	**457**	578
Canadian Pacific Steamships, Limited	**1,019**	1,183
Canadian Pacific Investments Limited	**857**	—
Canadian Pacific Securities Limited	**8,819**	7,947
CanPac Leasing Limited	**1,477**	248
Cominco Ltd. and subsidiaries	**9,784**	8,158
Fording Coal Limited	**5,477**	—
The Great Lakes Paper Company, Limited	**1,859**	2,043
Marathon Realty Company Limited	**1,876**	1,642
PanCanadian Petroleum Limited	**8,035**	3,904
Other companies	**3,973**	2,717
	$ 73,221	$ 54,153

Depreciation, Depletion and Amortization Charged to Expenses

	1973	1972
	(in thousands)	
CP Rail	**$ 72,196**	$ 69,428
CP Trucks	**4,762**	4,725
CP Telecommunications	**7,142**	7,005
CP Air	**13,905**	17,276
CP Ships	**6,527**	2,777
Miscellaneous	**1,067**	1,136
CP Investments Limited		
Oil and gas	**18,813**	13,992
Mines and minerals	**52,221**	35,076
Forest products	**10,005**	8,334
Real estate and related operations	**2,096**	2,212
Hotels and food services	**3,329**	3,149
	$192,063	$165,110

Extraordinary Items

	1973	1972
	(in thousands)	
Net gains on disposal of investments after income taxes	**$ 4,858**	$ 2,503
Gain (loss) on disposal of fixed assets after income taxes	**1,349**	(1,067)
	6,207	1,436
Minority interest	**28**	(495)
	$ 6,179	$ 1,931

Other Financial Information

Investment Portfolio as at December 31, 1973

	Number of shares	Percentage of outstanding voting shares	Cost	Approximate market value
			(in thousands)	
Common Stocks				
The Algoma Steel Corporation, Limited	2,982,111	25.70	$ 59,605	$ 60,761
Husky Oil Ltd.	354,000	3.66	4,053	7,788
MacMillan Bloedel Limited	2,574,800	12.33	74,775	83,359
MICC Investments Ltd.	410,500	8.95	1,880	6,158
Northern and Central Gas Corporation Limited	358,200	2.67	5,015	3,940
Rio Algom Mines Limited	1,210,869	9.88	28,280	41,472
TransCanada PipeLines Limited	1,200,000	12.97	44,613	36,750
Union Carbide Canada Limited	825,300	8.25	18,375	14,030
Other			5,804	6,505
			242,400	260,763
Preferred Stocks			20,870	19,776
Bonds, Debentures and Notes			13,465	11,989
			$276,735	$292,528

Properties and Accumulated Depreciation, Depletion and Amortization

	1973			1972
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
CP Rail (a)	$2,552,130	$1,214,701	$1,337,429	$1,331,581
CP Trucks (b)	95,380	38,739	56,641	55,839
CP Telecommunications	147,868	59,683	88,185	83,530
CP Air	269,897	103,754	166,143	135,048
CP Ships (c)	273,605	19,720	253,885	207,408
Miscellaneous	68,652	22,944	45,708	16,894
CP Investments Limited				
Oil and gas	350,199	100,266	249,933	203,112
Mines and minerals	718,427	261,654	456,773	448,242
Forest products	235,607	113,355	122,252	115,709
Real estate and related operations	174,693	9,782	164,911	152,251
Hotels and food services	82,899	21,424	61,475	59,041
Total	1,561,825	506,481	1,055,344	978,355
	$4,969,357	$1,966,022	$3,003,335	$2,808,655

(a) Includes $48,324,000 (1972 – $49,941,000) securities of leased railway companies.

(b) Includes $10,124,000 excess of cost of shares of subsidiaries over equity in net assets at dates of acquisition which is attributable to the value of licences and franchises. This amount is not being amortized.

(c) Includes $31,345,000 (1972 – $65,902,000) foreign currency deposits held to cover instalments payable on vessels under construction.

Other Financial Information

Long Term Debt

	1973	1972
	(in thousands)	
Canadian Pacific Limited		
Collateral Trust Bonds (a)		
Thirty year 3½%, due 1974	**$ 7,624**	$ 7,624
Six year 8¼%, due 1977	**20,000**	20,000
Twenty-five year 5%, due 1983	**37,401**	37,401
Twenty year 8¾%-8½%, due 1989	**25,000**	25,000
Twenty-one year 8⅞%, due 1992	**50,000**	50,000
Equipment Trust Certificates		
Series "P", 5%, due 1974-1981	**12,493**	14,278
Series "R", 6⅜%, due 1982	**13,775**	15,882
Series "S", 6.9%, due 1983	**12,436**	14,270
Series "T", 8¼%, due 1984	**23,540**	25,599
Bank loans	**138,324**	68,187
Canadian Pacific Air Lines, Limited – bank loans	**8,435**	8,741
Canadian Pacific Steamships, Limited – bank loans	**16,268**	19,339
Canadian Pacific Investments Limited – bank and sundry borrowings	**67,112**	—
Canadian Pacific Securities Limited		
Sinking fund debentures, 9½%, due 1990	**25,000**	25,000
Sinking fund debentures, 9⅜%, due 1990	**40,000**	40,000
Sinking fund debentures, 8¼%, due 1993	**15,000**	—
Bank loan, 7%, due 1979	**25,000**	25,000
CanPac Leasing Limited – bank loans	**26,305**	13,275
Cominco Ltd.		
Sinking fund debentures, 8½%, due 1991	**65,000**	65,000
Subsidiaries of Cominco Ltd.	**86,251**	57,874
Fording Coal Limited – bank loans	**67,110**	69,058
The Great Lakes Paper Company, Limited		
Sinking fund bonds, 4%, due 1975	**4,199**	5,380
Sinking fund bonds, 8%, due 1989	**18,700**	19,170
Debentures, 5¾%, due 1974-1975	**2,150**	3,225
Marathon Realty Company Limited		
Bank and sundry loans	**20,337**	14,072
Mortgage bonds of subsidiary	**9,805**	10,371
PanCanadian Petroleum Limited		
Sinking fund debentures, 8⅛%, due 1992	**25,000**	25,000
Sinking fund debentures, 8¾%, due 1992	**25,000**	25,000
Bank loans	**49,125**	24,895
Other companies	**50,996**	43,749
	987,386	772,390
Less: Long term debt maturing within one year	**167,981**	41,705
	$819,405	$730,685

(a) Secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating, in principal amount, $242,719,000 at December 31, 1973 and December 31, 1972.

Of the aggregate bank loans included above, approximately $250 million bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

At December 31, 1973, foreign currency long term debt translated at current rates would be $259,938,000, which is $7,398,000 less than the amount at which it is carried above.

Annual maturities and sinking fund requirements for the five years following 1973 are: 1974 – $167,981,000; 1975 – $90,992,000; 1976 – $54,181,000; 1977 – $88,556,000; 1978 – $49,766,000.

Other Financial Information

Perpetual 4% Consolidated Debenture Stock

	Sterling	United States currency	Canadian currency	Total
	(in thousands)			
Issued	£46,757	$72,838	$234,881	$535,268
Less: Pledged as collateral	—	7,838	234,881	242,719
	£46,757	$65,000	$ —	$292,549

Sterling translated at Can. $4.86⅔ to the £1; U.S. dollars at par. At December 31, 1973, translated at current rates, the net amount outstanding would be $175,000,000.

Summarized Financial Information of the Soo Line Railroad Company

	1973	1972
	(in thousands)	
Income Statement		
Operating revenues	**$168,324**	$140,651
Net railway operating income	**$ 19,883**	$ 13,808
Other income	**3,510**	1,223
Fixed and contingent charges	**(5,177)**	(4,709)
Net income	**$ 18,216**	$ 10,322
Condensed Balance Sheet		
Current assets	**$ 65,353**	$ 53,735
Investments and special funds	**9,960**	14,643
Net properties	**231,535**	213,675
Other assets	**2,142**	1,958
	$308,990	$284,011
Current liabilities	**$ 40,154**	$ 33,223
Long term debt	**93,717**	89,887
Other liabilities	**3,702**	1,674
Shareholders' equity	**171,417**	159,227
	$308,990	$284,011

Notes to Consolidated Financial Statements

1. Preferred Stock

The series A preferred shares are redeemable at the Company's option after January 1, 1978 at $10.50 on or before January 1, 1981; at $10.25 thereafter and on or before January 1, 1984; and at $10.00 thereafter.

The Company is obligated to apply up to $2,000,000 in each year to the purchase of series A shares, if available at a price not exceeding $10.50 per share plus costs of purchase. The price decreases to $10.25 after January 1, 1981, and $10.00 after January 1, 1984.

In 1973, 495,985 shares were purchased for $5,325,000; in 1972, 47,418 shares were purchased for $516,000.

In 1973, a further 1,298 series A shares were issued in exchange for $3,000 Canadian dollar and £6,588 sterling preference stock. Exchange of these shares had been delayed pending settlement of estates.

2. Minority Interest

The minority shareholders' interest in subsidiary companies is comprised as follows:

	1973	1972
	(in thousands)	
PanCanadian Petroleum Limited	**$ 16,633**	$ 15,110
Cominco Ltd.	**196,154**	184,405
The Great Lakes Paper Company, Limited	**18,054**	14,707
Canadian Pacific Investments Limited		
4¾% convertible preferred shares, series A	**60,620**	98,786
Common share equity	**49,174**	1,577
	$340,635	$314,585

Each CPI preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares, and is redeemable at CPI's option at $20 per share.

At December 31, 1973, CPI had outstanding 4,966,362 warrants for the purchase of common shares. Each warrant entitles the holder to purchase one common share at $14 on or before November 1, 1974. In 1973 a total of 3,836,736 common shares was issued consisting of 20,158 shares on exercise of warrants and 3,816,578 shares on conversion of preferred shares.

3. Pensions

At December 31, 1973, there were unfunded liabilities, determined by actuarial evaluations, of $236,000,000 which is being funded by equal annual payments to 1992, and $274,000,000 which is being funded by equal annual payments to 2027.

4. Contingent Liabilities and Commitments

The companies are contingently liable under sundry guarantees and claims in the amount of $19,879,000.

The companies had placed orders or were otherwise committed to capital expenditures in the amount of $268,194,000 at December 31, 1973. CP Air will be required to purchase rotable spares and ground support equipment at an estimated cost of $21,000,000, for Boeing 747 aircraft.

Annual commitments for rent for leased roads amounted to approximately $2,870,000 at December 31, 1973.

Commitments for rent for freight cars leased for varying periods through to 1989 amounted to approximately $33,000,000 at December 31, 1973. Commitments under other long term leases amount to approximately $7,000,000.

The Company is a defendant in a suit for $125,000,000 taken by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, claiming alleged misuse of the assets and also entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands. Counsel have advised that in their opinion the suit can be successfully defended.

Cominco Ltd. is disputing certain income tax assessments involving possible additional taxes aggregating $2,100,000 for the six years ended December 31, 1973. No provision has been made in respect of these taxes in the financial statements.

5. Other Assets

Rehabilitation of Cominco's potash mine following the flooding in 1970 was completed by March 1973 when commercial production resumed. Legal counsel have advised that in their opinion there are good grounds for establishing liability against the contractors and legal proceedings are in progress to recover the loss. Accordingly, the cost of $10,156,000 for rehabilitation is included in Other Assets in the balance sheet.

6. Acquisition

Effective January 31, 1973, PanCanadian Petroleum Limited acquired all of the issued shares of TransCanada Petroleums Limited, which operates in the oil and gas industry, and accounted for the acquisition as follows:

	TransCanada Petroleums Limited
Net current assets	$ 3,816,000
Petroleum and gas interests and production equipment	32,792,000
Excess of purchase price over book values, assigned to gas processing contracts (included in Other Assets)	12,065,000
	48,673,000
Liabilities (principally bank loans)	16,581,000
Cash paid for all issued shares	$32,092,000

Notes to Consolidated Financial Statements

7. Fully Diluted Earnings per Share

Fully diluted earnings per share for 1973, calculated on the basis described in the Summary of Significant Accounting Policies, would be $1.49 before extraordinary items and $1.56 in total.

8. Subsequent Events

In January 1974, CPL sold U.S. $25,000,000 of 8½% equipment trust certificates repayable 1974-1989.

Cominco purchased 492,400 shares (7.6% of the outstanding shares) of Tara Exploration and Development Company Limited (Tara) for $11,150,000 and on February 15, 1974, offered to purchase all the remaining issued shares of Tara for cash at $25 each. Cominco has arranged adequate bank credit to provide for payments that may be required under the offer.

On January 29, 1974 PanCanadian entered into an agreement with Tyler Ammonia Alberta Ltd. to construct an ammonia plant which will be owned 60% by PanCanadian and 40% by Tyler. It is estimated that the plant will cost $45,000,000 and will be completed late in 1976. Financing for PanCanadian's share of this project is presently being negotiated. The commitment to build the plant is conditional upon the fulfilment of certain conditions by each company by May 1, 1974.

Five-Year Summary

	1969	1970	1971	1972	**1973**
	(in millions, except amounts per share)				
Net income from:					
Transportation and Miscellaneous	$33.1	$27.7	$38.3	$51.0	**$ 43.4**
CP Investments Limited	36.2	33.0	28.0	37.5	**66.4**
Equity in income of subsidiary not consolidated	3.3	3.5	4.3	5.7	**10.1**
Income before extraordinary items	72.6	64.2	70.6	94.2	**119.9**
Extraordinary items	(1.4)	1.5	4.9	1.9	**6.2**
Net income	$71.2	$65.7	$75.5	$96.1	**$126.1**
Per Ordinary share*					
Income before extraordinary items	$ 0.97	$ 0.85	$ 0.94	$ 1.26	**$ 1.62**
Net income	0.95	0.87	1.01	1.29	**1.71**
Dividends	$ 0.64	$ 0.65	$ 0.66	$ 0.70	**$ 0.77**
Market price – High	$18¼	$14½	$14⅜	$16¾	**$ 19¼**
(Toronto Stock Exchange) – Low	13	10	11⅛	13⅞	**14**
Price/earnings ratios – High	19	17	14	13	**11**
– Low	14	11	11	11	**8**

*Years 1969 and 1970 adjusted for 5-for-1 split 1971.

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